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C O N F I D E N T I A L STATE 070201

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E.O. 12958: DECL: 07/05/2019
TAGS: [PREL](#) [ETRD](#) [ENRG](#) [GG](#) [IR](#)
SUBJECT: RESPONSE TO GOVERNMENT OF GEORGIA REGARDING
IRANIAN INVESTMENT IN GEORGIA'S HYDROPOWER SECTOR

REF: A: TBLISI 01211
B: STATE 114408

Classified by NEA Acting Assistant Secretary Jeffrey D.
Feltman for reasons 1.4 (b) and (d).

[¶1.](#) (U) This is an action request. Please see paragraph
[¶3.](#)

[¶2.](#) (C) SUMMARY: Department appreciates reftel report of a pending Georgian deal to accept Iranian investment in Georgia's hydropower sector. Such business deals with Iran or Iranian entities, particularly in the energy sector, undercut international efforts to maintain pressure on Iran while it continues to defy its obligations. The international community must demonstrate that it is united against Iran's negative policies. Iran has a history of using new energy deals as opportunities to proclaim itself as a fully-integrated and responsible member of the international community. The Government of Iran also uses such announcements to augment its position that multilateral sanctions have little effect on Iran's economy. The Government of Georgia should refrain from presenting Iran such an opportunity. There are also implications under U.S. law and particularly given Congressional consideration of legislation to expand U.S. sanctions on Iran. If such sanctions are adopted, there would likely be impacts on countries doing business with Iran, and could greatly restrict access to U.S. capital and financial markets for Georgian firms who are engaged in business with Iranian entities.
End summary.

[¶3.](#) (C) BACKGROUND: Ref A states that the Iran Export Bank would provide financing for the proposed project by the Iranian company Sunir and the Georgian Investment Group (GIG). Post should alert appropriate host government officials in the Foreign Affairs, Energy and Finance Ministries that the Iran Export Bank may be another name for the Export Development Bank of Iran (EDBI), which was designated by the U.S. Treasury Department under Executive Order (E.O.) 13382 on October 22, 2008, for providing financial services to entities engaged in developing Iran's weapons of mass destruction (WMD) programs (ref B). Doing business with EDBI could expose Georgian entities to U.S. sanctions, and is inconsistent with both the call in UN Security Council Resolution 1803 to exercise vigilance against Iranian banks, as well as the call by the Financial Action Task Force for countries to apply countermeasures to guard against the threat posed by the money laundering and terrorist financing deficiencies inherent in Iran's financial system.

[¶4.](#) (C) ACTION REQUEST: Post is requested to urge the Government of Georgia to refrain from accepting Iranian investment to develop hydropower in Georgia for export

to Iran through Armenia or Azerbaijan, drawing on the points in paragraph 5.

¶5. (U) Post may draw from the following points with Government of Georgia interlocutors in the Ministries of Foreign Affairs, Energy and Finance as appropriate:

-- Now is not the time for business as usual with Iran. Iran needs to understand it has an opportunity to regain the confidence of the international community. We have offered a path to dialogue and diplomatic resolution. It is up to Iran to take advantage of this offer or face consequences.

-- Signing a deal like this now only reinforces Iran's belief that its current path is acceptable to the international community, and that Tehran has no reason to adjust its actions and fulfill its international obligations.

-- The Iran Export Bank may be another name for the Export Development Bank of Iran (EDBI). The United States designated EDBI and three affiliated entities under E.O. 13382 ("Blocking the Property of Weapons of Mass Destruction Proliferators and their Supporters") on October 22, 2008.

-- E.O. 13382 is an authority aimed at freezing the assets of proliferators of weapons of mass destruction and their supporters, and at isolating them from the U.S. financial and commercial systems. Designations under the Order prohibit all transactions between the designees and any U.S. person, and freeze any assets the designees may have under U.S. jurisdiction.

-- Any entity found to be conducting business with EDBI and its affiliates and any other designated entities, or any entity that is owned or controlled by, or acting for or on behalf of EDBI and its affiliates, may be subject to designation under E.O. 13382.

-- UNSCR 1803, adopted on March 4, 2008, "(c)alls on all member states to exercise vigilance over the financial activities of banks in their territories with all banks domiciled in Iran, and their branches and subsidiaries abroad, particularly Bank Melli and Bank Saderat." EDBI is included in this call by extension.

-- According to information available to the U.S. Government, the EDBI provides financial services to multiple Ministry of Defense and Armed Forces Logistics (MODAFL)-subordinate entities; these services permit these entities to advance Iran's WMD Programs.

-- Furthermore, the EDBI has facilitated the ongoing procurement activities of various front companies associated with MODAFL-subordinate entities.

-- MODAFL controls Iran's Defense Industries Organization (DIO), an Iranian entity designated in UNSCR 1737 and by the U.S. under E.O. 13382 on March 30, ¶2007. The U.S. also sanctioned MODAFL pursuant to the Arms Export Control Act and the Export Administration Act in November 2000 for its involvement in missile technology proliferation activities.

-- MODAFL has ultimate authority over Iranian ballistic missile activities and organizations, including the Shahid

Hemmat Industries Group (SHIG) and the Shahid Bagheri Industries Group (SBIG), which were both designated under UNSCR 1737, and by the U.S. in the annex of E.O. ¶13382.

MODAFL has publicly indicated its willingness to continue work on ballistic missiles. Iran's Defense Minister Brigadier General Mostafa Mohammad Najjar said that one of

Iran's major projects is the manufacturing of Shahab-3 missile and it will not be halted. The Defense Minister has also commented on MODAFL's readiness to supply these missiles to Iran's armed forces.

-- Since the United States and United Nations designated Iran's Bank Sepah in early 2007, the EDBI has served as one of the leading intermediaries handling bank Sepah's financing, including WMD-related payments. In addition to handling business for Bank Sepah, the EDBI has facilitated financing for other proliferation-related entities sanctioned under U.S. and UN authorities.

-- We know MODAFL representatives are acting as facilitators for Iranian assistance to an E.O. 13382 designated entity and, over the past two years, brokered a number of transactions involving materials and technologies with ballistic missile applications.

-- On February 25, 2009, the Financial Action Task Force (FATF) reaffirmed its call on members to advise their financial institutions to give special attention to business relationships and transactions with Iran and apply effective counter-measures to protect their financial sectors from the money laundering and financing of terrorism risks inherent in financial dealings with Iran.

-- In light of EDBI's demonstrated relationship with MODAFL and its affiliates, as well as UNSCR 1803 and the FATF's call for countermeasures to protect against the risk of doing business with Iranian banks, we urge you to refrain from accepting Iranian investment to develop hydropower in Georgia for export to Iran through Armenia or Azerbaijan.

-- We understand that Iran is a neighbor and that Georgia does not want to have a problematic relationship with Iran. We look forward to time when Iran takes its place as a responsible member of the international community that respects the rights of both its own people and its neighbors.

End points.

¶6. (U) Post is requested to report any substantive response front channel. Raj Wadhwani (202-647-2513) is the Department point of contact for this demarche.
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